

## Message Text

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PAGE 01 STATE 064026  
ORIGIN NODS-00

INFO OCT-01 ISO-00 /001 R

DRAFTED BY EUR/WE;EMROWELL/EB/IFD/OMA:CERVIN:MS  
APPROVED BY E - MR. COOPER  
EB - MR. BOEKER (IN DRAFT)  
EUR/CE - MR. ANDERSON (IN DRAFT)  
TREASURY - MR. SYVRUD (IN DRAFT)  
EUR: JGLOWENSTEIN  
NSC - MR. HORMATS  
S/S - MR. SEBASTIAN

-----231522Z 056592 /45

O 231440Z MAR 77 ZFF4  
FM SECSTATE WASHDC  
TO AMEMBASSY BONN IMMEDIATE  
AMEMBASSY LISBON

C O N F I D E N T I A L STATE 064026

NODIS  
FOR AMBASSADOR

E.O. 11652:GDS

TAGS: ECON, EFIN, PO

SUBJECT:ECONOMIC ASSISTANCE FOR PORTUGAL

REFS: (A) LISBON 2067 (B) LISBON 2002 NOTAL

### 1. BACKGROUND

A. DURING HIS DISCUSSIONS WITH U.S. OFFICIALS MARCH 10-12  
STATE SECRETARY POEHL EMPHASIZED THAT FRG HAS DIFFICULTY  
ACCEPTING A CONSORTIUM BECAUSE (1) THE BUNDESBANK WILL NOT  
PARTICIPATE, (2) IT WOULD BE DIFFICULT FOR FRG TO OBTAIN  
CONFIDENTIAL

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PAGE 02 STATE 064026

APPROPRIATED FUNDS, AND (3) A SEPARATE CONSORTIUM FOR  
PORTUGAL WOULD CREATE A PRECEDENT LEADING TO INEVITABLE  
DEMANDS FOR SIMILAR EFFORTS FOR OTHER COUNTRIES. ON  
BALANCE THE FRG WOULD PREFER TO ASSIST PORTUGAL THROUGH  
A NEW IMF FACILITY TO WHICH THE BUNDESBANK WOULD CON-  
TRIBUTE. POEHL ADDED THAT IN THE GERMAN VIEW PORTUGAL'S  
;977 FOREIGN EXCHANGE SHORTFALL SHOULD ONLY BE ROUGHLY

\$300 MILLION. THIS DIFFERS SUBSTANTIALLY FROM THE U.S. AND PORTUGUESE ESTIMATES (500-850 MILLION, SEE PARA 3 BELOW). HE ALSO ASSERTED THAT EUROPE HAS ALREADY CONTRIBUTED A DISPROPORTIONATE SHARE OF THE ASSISTANCE GIVEN TO PORTUGAL TO DATE AND THAT THE FRG HAS ALREADY LOANED CLOSE TO \$500 MILLION DIRECTLY AND THROUGH THE BIS.

B. IN SUCCEEDING CONVERSATIONS POEHL ACKNOWLEDGED THAT PORTUGAL WILL HAVE A SHORTFALL IN 1977 AND EARLY 1978 THAT WILL REQUIRE SPECIAL ASSISTANCE, AND RECOGNIZED THAT THIS SHORTFALL POSSIBLY COULD NOT BE COVERED FROM ANY EXTENDED DRAWING FROM THE IMF UNTIL LATER BECAUSE PORTUGAL COULD NOT MEET LIKELY IMF CONDITIONS FOR SOME TIME. HE URGED THE U.S. TO CLARIFY THIS WITH IMF MANAGING DIRECTOR WITTEVEEN. (SEE PARA E BELOW). THE U.S. SIDE SUGGESTED TO POEHL THAT FRG FUNDING DIFFICULTIES FOR BILATERAL ASSISTANCE MIGHT BE SOLVED THROUGH USE OF KFW. (SEE PARA 7). POEHL AGREED TO LOOK INTO THE KFW OPTION ON HIS RETURN TO BONN.

C. AFTER DISCUSSION POEHL ALSO AGREED HIS ARGUMENT ABOUT THE DISPROPORTION BETWEEN U.S. AND EUROPEAN ASSISTANCE IS INVALID. (WE SHOWED HIM FIGURES INDICATING THAT U.S. ASSISTANCE FROM FY 1975 THROUGH THE END OF FY 77 TOTALLED OVER \$750 MILLION, INCLUDING THE \$300 MILLION EXCHANGE STABILIZATION FUND LINE OF CREDIT. EUROPEAN ASSISTANCE THROUGH DEC. 31, 1976 TOTALLED ABOUT \$1.6 BILLION.)

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PAGE 03 STATE 064026

D. ON MARCH 14 THE PRESIDENT PERSONALLY EMPHASIZED IN THE STRONGEST TERMS TO FOREIGN MINISTER GENSCHER THE U.S. COMMITMENT TO SOME KIND OF A CONSORTIUM TO ASSIST PORTUGAL. HE ALSO REITERATED OUR STRONG HOPE THAT THE FRG WOULD FIND A WAY TO PARTICIPATE. THE PRESIDENT WAS AWARE AT THAT TIME OF THE CONTENT OF POEHL'S MARCH 10-12 TALKS WITH U.S. OFFICIALS.

E. ON MARCH 17 U.S. OFFICIALS DISCUSSED THE PORTUGUESE SITUATION WITH IMF MANAGING DIRECTOR WITTEVEEN. WITTEVEEN HOPED IMF FINANCING FOR PORTUGAL ON THE ORDER OF SEVERAL TIMES QUOTA (500-700 MILLION DOLLARS) COULD EVENTUALLY BE MADE AVAILABLE. HE RAISED A QUESTION, HOWEVER, ABOUT PORTUGAL'S ABILITY TO MEET THE CONDITIONS NECESSARY FOR SUCH DRAWING UNTIL MID 1978 OR LATER. UNDER THESE CIRCUMSTANCES WE CONTINUE TO BELIEVE THAT SPECIAL ASSISTANCE IS NEEDED FOR PORTUGAL FROM THE WESTERN DEMOCRACIES.

2. FOR BONN TO INSURE THAT POEHL AND THE FRG HAVE

NOT MISUNDERSTOOD THE U.S. POSITION, YOU SHOULD APPROACH GENSCHER AND APEL AND INFORM THEM THAT WE HOPE THERE WILL BE AN EARLY REPLY TO THE PRESIDENT'S LETTER OF MARCH 8 GIVING FURTHER EVOLUTION OF GERMAN THINKING. IN URGING THAT THE REPLY BE FORTHCOMING, YOU MAY DRAW ON THE FOLLOWING:

3. CURRENT ESTIMATE OF PORTUGAL'S CALENDAR 1977 REQUIREMENTS (ADDITIONAL DETAILS IN LISBON 2002 REPEATED TO BONN):

A. WE ESTIMATE A TRADE DEFICIT OF \$2 BILLION IN 1977 PARTIALLY OFFSET BY WORKER REMITTANCES OF \$1 TO \$1.1 BILLION AND TOURIST RECEIPTS OF \$250-300 MILLION. PUTTING IN ADDITIONAL DEFICIT ITEMS IN THE CURRENT ACCOUNT SUCH AS TRANSPORTATION, INVESTMENT INCOME AND INTEREST ON FOREIGN DEBT (TOGETHER ABOUT \$400-500 MILLION) WOULD YIELD A CURRENT ACCOUNT DEFICIT OF CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 064026

\$1.0-\$1.25 BILLION.

B. ON THE CAPITAL ACCOUNT PORTUGAL FACES DEBT AMORTIZATION PAYMENTS AND FOREIGN INVESTMENT OUTFLOWS OF ABOUT \$1.6 BILLION. ANTICIPATED NET SURPLUSES ON SHORT AND MEDIUM TO LONG TERM CREDITS OF \$200 MILLION AND \$350 MILLION RESPECTIVELY WOULD GIVE A POTENTIAL CAPITAL ACCOUNT DEFICIT OF \$1.05 BILLION.

C. THE POTENTIAL OVERALL DEFICIT WOULD THUS BE BETWEEN \$2.0 AND \$2.3 BILLION. ABOUT \$1.1 BILLION OF THE DEBT AMORTIZATION IS OWED TO CENTRAL BANKS AND THE BIS AND WE EXPECT THIS WILL BE ROLLED OVER. IMF CREDITS, UNUSED AND PENDING CENTRAL BANK CREDITS AND PLANNED GOLD SALES COULD CONTRIBUTE AN ADDITIONAL \$350-\$450 MILLION. USING THESE METHODS OF FINANCING YIELDS AN OVERALL UNCOVERED DEFICIT IN THE \$500 TO \$850 MILLION RANGE FOR 1977. PORTUGAL'S OWN ESTIMATES ARE IN THE UPPER END OF THIS RANGE.

D. WE EXPECT THAT PORTUGAL'S EXTERNAL POSITION WILL EASE SOMEWHAT IN 1978, BUT BALANCE OF PAYMENTS ASSISTANCE WILL CONTINUE TO BE NECESSARY THROUGH 1978 AND INTO 1979.

4. WE BELIEVE THAT IMMEDIATE ACTION ON A MULTILATERAL BALANCE OF PAYMENTS ASSISTANCE PROGRAM IS CRITICAL FOR PORTUGUESE POLITICAL STABILITY AND ECONOMIC RECOVERY. SOARES JUSTIFIED HIS FEBRUARY 25 ADDED AUSTERITY MEASURES (INCLUDING DEVALUATION OF THE ESCUDO, INCREASES IN DOMESTIC INTEREST RATES, HIGHER

PRICES FOR SOME NECESSITIES) PARTLY ON THE GROUNDS  
THAT PORTUGAL HAS THE WESTERN SUPPORT NECESSARY TO  
MAKE THEM PAY OFF. PARTLY BY CITING  
EVIDENCE OF INTERNATIONAL SUPPORT, SOARES HAS WON  
SOCIAL DEMOCRATIC AND CENTER SOCIAL DEMOCRATIC BACKING  
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PAGE 05 STATE 064026

FOR THE GOVERNMENT'S AUSTERITY PROGRAM, AND SOARES'  
STOCK WITH PRESIDENT EANES HAS GROWN. THE BALANCE  
OF PAYMENTS ASSISTANCE EFFORT, ALREADY JUSTIFIABLE  
ON ECONOMIC GROUNDS, HAS ACQUIRED AN ADDED POLITICAL  
SYMBOLISM THAT CAN BE IGNORED ONLY AT GREAT PERIL TO  
PORTUGUESE DEMOCRACY.

5. THE U.S. HAS ASKED CONGRESS FOR \$300 MILLION FOR  
ASSISTANCE FOR PORTUGAL IN FY 1978, AND HAS TOLD  
CONGRESS WE ARE PLANNING AN ADDITIONAL \$250 MILLION  
FOR THE FOLLOWING TWO YEARS. CONGRESSMEN ARE EN-  
COURAGING ON THIS, PROVIDED REPEAT PROVIDED THE U.S.  
ASSISTANCE IS NO RPT NO MORE THAN FORTY PERCENT OF A  
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AVAILABLE TO PORTUGAL, THE POSSIBLE SCALE OF U.S.  
ASSISTANCE ALSO WILL DECREASE. WHILE SOME OTHER  
COUNTRIES, ESPECIALLY NORWAY AND VENEZUELA, HAVE  
INFORMALLY SAID THEY ARE WILLING TO PROVIDE SUB-  
STANTIAL ASSISTANCE, OTHERS ARE WAITING TO SEE  
WHAT THE FRG WILL DO.

6. WE AND THE FRG (POEHL) HAVE RECOGNIZED THAT THE  
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TURE. WE ARE OPEN TO FRG SUGGESTIONS ON MODALITIES  
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WE ALSO WOULD WELCOME FRG VIEWS ON HOW TO ENCOURAGE  
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CONSENSUS (INCLUDING FROM THE PORTUGUESE GOVERNMENT)  
ON QUESTIONS SUCH AS THE TERMS OF ASSISTANCE, PHASING  
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REPLY TO THE PRESIDENT'S MARCH 8 LETTER TO CHANCELLOR  
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7. FYI: THE KFW CAN MAKE AVAILABLE SPECIAL FINANCING  
WHICH IT CLASSIFIES AS "UNITED FINANCIAL CREDIT"  
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PAGE 06 STATE 064026

NOT DIRECTLY RELATED TO SUPPORTING GERMAN EXPORTS.

SOME BALANCE OF PAYMENTS LOANS HAVE BEEN EXTENDED  
DIRECTLY BY THE KFW AT THE SPECIFIC REQUEST OF THE  
FEDERAL GOVERNMENT. FOR EXAMPLE, IN 1975 DM 50 MILLION  
WERE COMMITTED TO THE CENTRAL BANK OF GREECE TO SUPPORT  
THAT COUNTRY'S INTERNATIONAL RESERVES. THE LARGEST  
SINGLE KFW TRANSACTION THROUGH THE END OF 1975 WAS  
DM ONE BILLION EXTENDED TO POLAND TO IMPROVE COOPERATION  
BETWEEN THE TWO COUNTRIES. END FYI.

8. FOR LISBON. WE AGREE THOROUGHLY WITH SOARES'  
CONCLUSION THAT THE GOP SHOULD PRESS THE FRG  
IMMEDIATELY FOR CONCRETE SUGGESTIONS ON HOW TO  
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PAGE 01 STATE 064026  
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TO WHITE HOUSE IMMEDIATE

C O N F I D E N T I A L STATE 064026

NODIS  
WH FOR DR BRZEZINSKI

FOLLOWING REPEAT STATE 64026 ACTION BONN LISBON 23 MAR 77

QUOTE C O N F I D E N T I A L STATE 064026

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FOR AMBASSADOR

E.O. 11652:GDS

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PAGE 02 STATE 064026

PARTICIPATE, (2) IT WOULD BE DIFFICULT FOR FRG TO OBTAIN APPROPRIATED FUNDS, AND (3) A SEPARATE CONSORTIUM FOR PORTUGAL WOULD CREATE A PRECEDENT LEADING TO INEVITABLE DEMANDS FOR SIMILAR EFFORTS FOR OTHER COUNTRIES. ON BALANCE THE FRG WOULD PREFER TO ASSIST PORTUGAL THROUGH A NEW IMF FACILITY TO WHICH THE BUNDESBANK WOULD CONTRIBUTE. POEHL ADDED THAT IN THE GERMAN VIEW PORTUGAL'S 1977 FOREIGN EXCHANGE SHORTFALL SHOULD ONLY BE ROUGHLY \$300 MILLION. THIS DIFFERS SUBSTANTIALLY FROM THE U.S. AND PORTUGUESE ESTIMATES (500-850 MILLION, SEE PARA 3 BELOW). HE ALSO ASSERTED THAT EUROPE HAS ALREADY CONTRIBUTED A DISPROPORTIONATE SHARE OF THE ASSISTANCE GIVEN TO PORTUGAL TO DATE AND THAT THE FRG HAS ALREADY LOANED CLOSE TO \$500 MILLION DIRECTLY AND THROUGH THE BIS.

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PAGE 05 STATE 064026

SOCIAL DEMOCRATIC AND CENTER SOCIAL DEMOCRATIC BACKING FOR THE GOVERNMENT'S AUSTERITY PROGRAM, AND SOARES' STOCK WITH PRESIDENT EANES HAS GROWN. THE BALANCE OF PAYMENTS ASSISTANCE EFFORT, ALREADY JUSTIFIABLE ON ECONOMIC GROUNDS, HAS ACQUIRED AN ADDED POLITICAL SYMBOLISM THAT CAN BE IGNORED ONLY AT GREAT PERIL TO PORTUGUESE DEMOCRACY.

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ASSISTANCE ALSO WILL DECREASE. WHILE SOME OTHER COUNTRIES, ESPECIALLY NORWAY AND VENEZUELA, HAVE INFORMALLY SAID THEY ARE WILLING TO PROVIDE SUBSTANTIAL ASSISTANCE, OTHERS ARE WAITING TO SEE WHAT THE FRG WILL DO.

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PAGE 06 STATE 064026

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## Message Attributes

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**Channel Indicators:** n/a  
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**Review Release Date:** n/a  
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**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
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**Subject:** ECONOMIC ASSISTANCE FOR PORTUGAL  
**TAGS:** EFIN, ECON, EAID, GE, US, PO, IMF  
**To:** BONN LISBON  
**Type:** TE  
**vdkgvkey:** odbc://SAS/SAS.dbo.SAS\_Docs/d891aab3-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009